

STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:

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Preparation of the 2003)
and Integrated Energy) Docket No. 02-IEP-01
Policy Report)
)

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1516 NINTH STREET
HEARING ROOM A
SACRAMENTO, CALIFORNIA

TUESDAY, OCTOBER 22, 2002
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

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John Geesman, Commissioner

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P R O C E E D I N G S

1:05 p.m.

PRESIDING COMMISSIONER BOYD: I'd like to welcome you all, ladies and gentlemen, to this first public hearing of the CEC's ad hoc Integrated Energy Policy Report Committee, and the Committee being Chairman --

PROGRAM MANAGER GRIFFIN: They can't hear.

PRESIDING COMMISSIONER BOYD: They can't hear.

THE REPORTER: It's fine. The volume was just low.

PRESIDING COMMISSIONER BOYD: Okay. I'm usually criticized for being too loud, but I will start all over again and welcome you, ladies and gentlemen, to this first public hearing of the CEC's ad hoc Integrated Energy Policy Report Committee, the Committee consisting of Chairman Keese and myself and guest Commissioner Geesman. And, of course, any and all Commissioners are liable to be present at any one of our hearings on this subject.

This hearing is brought to you today as a result of the passage or the existence of

1 Chapter 568 statutes of 2002, otherwise known as
2 SB 1389 Bowen, about which you will hear more from
3 the staff in a few moments.

4 I want to thank all of you, and I'm glad
5 to see it's not the hardy few -- Sometimes I
6 wonder -- but I want to thank all of you for
7 attending this hearing, for showing your interest
8 in this subject, this issue. This is a keenly
9 important issue and I'm glad to see that many
10 people have so recognized.

11 And I want to thank representatives of
12 our sister agencies who are here today who, those
13 of you familiar with the law and/or the practices
14 of energy-related agencies these days tend to work
15 very closely together, and we look forward to
16 their participation, their help and their support.
17 And, as you've seen in the public documents, we
18 intend to make very heavy use of work done by all
19 other agencies to contribute to the materials we
20 have before us for this task, and an important
21 task it is.

22 Integrated energy policy: a very
23 significant and important phrase. The word
24 "integrated," keenly important -- I'm not sure I
25 should say this -- maybe novel phrase applied to

1 this particular subject. Energy, and that means
2 all forms of energy, not just electricity, which
3 has seemed to crowd everything else off of agendas
4 of late, but it's electricity, it's natural gas,
5 it's petroleum in all its forms and in all its
6 uses.

7 Policy has many connotations, and for us
8 policy is going to be in all forms or connotations
9 you want to make of that when you put the phrase
10 integrated energy policy report, that's what we're
11 commanded to produce and provide to the Governor
12 and the Legislature, and that means a major
13 guidance document to the governing agencies and
14 individuals who affect the course of where the
15 state of California is going.

16 It's a big task. It's an incredibly
17 important task to the citizens and to their
18 economy and the economy of this state of
19 California in the way energy fuels the economy and
20 the production and use of same has an effect upon
21 the citizens in the forms of potential public
22 health implications, potential implications to the
23 environment, and yet energy is an absolutely
24 necessary ingredient, as I said, of our economy.
25 It fuels our economy.

1 So all the features of this are
2 extremely important to California's quality of
3 life, which has made us, in concert with these
4 other components, the world's fifth-largest
5 economy, the Golden State, the most populous state
6 in this nation.

7 So we have a fairly monumental task in
8 front of us, and we're grateful to the Legislature
9 for seeing the need for this task and charging
10 this institution with the responsibility for this
11 task. Maybe we've all learned something the last
12 couple of years.

13 The notice of the Committee hearing and
14 the staff proposal for a future scoping document
15 are very comprehensive, and I'm sure you've all
16 taken a good look at it. There is an explanation
17 of what we need to do, and you'll hear more about
18 that from our staff shortly. We up here anxiously
19 look forward to and await your input, both today
20 and in the future. We need your input, we need
21 your help to fashion where it is we want to go and
22 what it is we need to do.

23 So I look forward to working closely
24 with a lot of people over the next several months
25 as we work to deliver our first report in the

1 series of reports, November of next year. With
2 that, I'd like to ask Chairman Keese if he'd like
3 to make some remarks, and perhaps Commissioner
4 Geesman following.

5 CHAIRMAN KEESE: Thank you, Commissioner
6 Boyd.

7 I witnessed the process by which a half-
8 dozen states have adopted state energy plans going
9 forward, and there have been myriad forms.
10 Governors have put together commissions, governors
11 have charged specific members of their cabinet
12 with the responsibility. The Legislature chose
13 the method that we're starting on today to do it.

14 I'd look at two parts: Energy and the
15 environment. Energy and the environment are
16 totally linked. You do something in energy, you
17 impact the environment. If you want to impact the
18 environment, the best way to do it is through
19 energy. And again, we're talking broadly -- not
20 just electricity, we're talking about natural gas,
21 we're talking about gasoline, we're talking about
22 the alternative energy sources.

23 And then I'd look at what most other
24 states that have set up special commissions to do
25 this have done, and that is they have involved the

1 private sector. Because the rates that private
2 sector pays, the alternatives that the private
3 sector has to meet its energy needs or reduce its
4 energy needs are, again, a very important
5 ingredient in how we get an energy policy, an
6 integrated energy policy.

7 This is not an integrated energy policy
8 that the Energy Commission decides is the way to
9 go. We will work with our sister agencies, all of
10 whom have critical input to what that policy
11 should be. But we hope that just as our sister
12 agencies work with us in developing this, that the
13 private sector comes forward and insists on their
14 demands being met too, not just sits and watches
15 to see what government does to them, but helps us
16 in developing a plan that will let us all move
17 forward in the future.

18 So my call is to all the people in this
19 room, and if there are significant players who are
20 not in this room today, to them too to get
21 involved in this process, so when we come to the
22 conclusion just about one year from today and
23 deliver a proposal to the governor for his
24 adoption or rejection, I believe, are pretty much
25 the words of the legislation, "adoption or

1 rejection," when we put it forward, everybody who
2 participated can say they had a part of
3 formulating what that policy is. And everybody
4 who had a part in formulating what the policy is
5 can be supportive of it.

6 Thank you.

7 PRESIDING COMMISSIONER BOYD: Thank you.

8 Commissioner Geesman, would you like to
9 say a few words?

10 COMMISSIONER GEESMAN: Well, I'd commend
11 you both for your courage in stepping forward and
12 taking on this responsibility. The legislation
13 creates an opportunity, which I don't think has
14 existed for the Commission or for the various
15 agencies in state government before. In these
16 supercharged times when the various agencies
17 involved in energy and state government are
18 committed to cooperating and collaborating with
19 each other as never before, I think we do have the
20 opportunity to strike some agreements here.

21 I'm mindful of what Chairman Keese has
22 said about the importance of participation from
23 the private sector as well. We may never get a
24 chance as good as this one to attempt to lay the
25 best data available before us, strike what

1 agreements we can and make the difficult choices
2 where agreement simply seems to be impossible.

3 So I would wish you Godspeed. I know
4 the Governor eagerly awaits the product of this
5 result, and I know the other Commissioners do as
6 well.

7 PRESIDING COMMISSIONER BOYD: Thank you.

8 Well, with that I think it's time to
9 move on to staff presentation. I'd like to call
10 on Executive Director Steve Larson to introduce
11 the subject and the staff presentation.

12 Mr. Larson?

13 EXECUTIVE DIRECTOR LARSEN: Thank you,
14 Mr. Chairman, and members of the Committee and
15 Commissioner Geesman, and also people who are in
16 attendance and staff in general. I can't tell you
17 how significant I think this is, this particular
18 exercise is.

19 I know that last year and, in fact,
20 before that, during the height of the crisis,
21 while we were all dealing with the nuts and bolts
22 of trying to site power plants and develop
23 conservation measures and efficiency standards,
24 while other agencies were attempting to come to
25 grips with rate setting in a new way, in a new

1 environment, while we were inventing whole new
2 agencies to deal with other aspects of the energy
3 problem, a couple of things became fairly
4 apparent.

5 One of the most important was that we
6 needed additional tools to deal with energy in a
7 coordinated fashion, and there needed to be a way
8 in which the state of California could come to
9 grips analytically with the problems that faced us
10 in a comprehensive way.

11 I think that we recognized in SB 1389
12 that that was the place where these tools could be
13 developed. And, in fact, as time went along, I
14 don't think that there was a more important piece
15 of legislation last year. And certainly, the
16 Energy Commission and other agencies strongly
17 supported that piece of legislation, and I think
18 it is the sort of flagship of the bills that
19 passed, even though fairly not recognized from
20 many quarters.

21 At the same time, I don't think there
22 was a more important piece of legislation than
23 that one, in terms of the state's future, in
24 considering energy policy. And it gives us the
25 tools to begin to do the comprehensive kind of

1 analytical work that's required to set this state
2 apart from other states and other locales in terms
3 of developing energy policy.

4 I think the other important feature in
5 the legislation, the other process, feature that's
6 so important and you've all alluded to is
7 coordination and cooperation with other agencies,
8 and also with the outside government sectors.
9 That's the only way in which a plan that has the
10 least bit of chance of succeeding can be
11 developed. And it's built into this legislation
12 and we're here today to begin to talk about the
13 framework, but how we'll go about trying to
14 achieve that goal. I think without that, we can't
15 succeed.

16 Of course, we are here technically to do
17 this report, which is the Integrated Energy Policy
18 Report. It's more than technical. This is very
19 important, and we're going to look at different
20 sectors. It's a comprehensive look, electricity,
21 natural gas, transportation, fuels, technologies.
22 We're going to develop energy strategies, and
23 coming out of that will be what we hope a year
24 from now is something that not only the Energy
25 Commission but the whole state of California and

1 the Governor can be proud of.

2 They've taken it very seriously. I've
3 asked my chief deputy, Bob Therkelson, to take
4 personal responsibility for putting this together,
5 and he has done so. In each of the packets that
6 have been distributed there is a color chart which
7 describes the structure for approaching this
8 problem. And I think that certainly, we consider
9 this to be of the highest priority in terms of
10 staff work in the Commission during this year and
11 in future years.

12 And with that, I want to introduce the
13 person who really has the responsibility for doing
14 the job, and that's Karen Griffin. Karen has been
15 and served in many different capacities in the
16 Energy Commission. She's been here for some time,
17 and I must say I've never found her lacking in
18 determination -- some would say willfulness, but
19 no, I wouldn't do that -- determination and
20 commitment. And I can't think of another person
21 that has a better chance of making this succeed.

22 And, with that, I'll turn it over to
23 Karen to sort of outline the structure that we are
24 going to approach this problem with.

25 PRESIDING COMMISSIONER BOYD: Thank you,

1 Mr. Larson, Karen, I'd like to interrupt you for
2 just a second. Did you have another --

3 EXECUTIVE DIRECTOR LARSEN: I had one
4 point --

5 PRESIDING COMMISSIONER BOYD: Oh, excuse
6 me.

7 EXECUTIVE DIRECTOR LARSEN: -- which
8 was that Karen made me promise to point out that
9 the little blue cards that permit public
10 participation I think have arrived and are being
11 distributed. They're at the table in the back or
12 over there, and if you want to testify, please put
13 your name on a card and send it forward.

14 PRESIDING COMMISSIONER BOYD: Thank you
15 for that notice. I was getting quite concerned,
16 because there were no blue cards up here and I
17 thought this was going to be a one-way discussion
18 again.

19 Karen, before you start, let me take
20 care of a couple of other matters.

21 First, let me introduce to the audience
22 the two advisors who are here with us today.
23 Susan Bakker on my right is my principal advisor.
24 Scott Thomashefsky on the Chairman's left is his
25 principal advisor.

1 These are people you should get to know,
2 if you don't already know them, because as we two
3 Commissioners move forward with this project and
4 also deal with all the other demands made on us on
5 a daily basis, our advisors are key to
6 communicating with us. So they will be with us
7 today and in the future.

8 Secondly, let me just say this is a
9 formal hearing only in that to have our Committee
10 conduct this hearing it has to be a formal
11 arrangement, and in order to allow other
12 Commissioners to attend it had to be publicly
13 announced. But I want to treat this as a very
14 somewhat informal exchange with you, the public.
15 If we could lower this dais up here I'd lower it
16 down so we could be eye to eye, but please feel
17 free to treat this as a very open exchange of
18 information, and please don't be reluctant to
19 testify. We are not fighting the clock, other
20 than 5:00 o'clock, et cetera, et cetera.

21 Lastly, let me say that I noticed that,
22 Mr. Larson, that while you've charged the chief
23 deputy with responsibility for this huge task,
24 you've given him the day off today to save up his
25 strength I trust to be able to handle this task.

1 (Laughter.)

2 EXECUTIVE DIRECTOR LARSEN: Yeah, I
3 actually gave him the week off so he would be
4 ready for this when he comes back next Monday.

5 PRESIDING COMMISSIONER BOYD: All right.
6 Now that I'm about ready to turn it over to
7 Karen -- Oh, there she is. All right.

8 Karen, if you would.

9 PROGRAM MANAGER GRIFFIN: Thank you.
10 You all already have my handouts in your
11 packet. They're trying to set this up so that you
12 can see it and I can see it a little bit while
13 this goes.

14 All right. My part of this discussion
15 is to go through two elements, the material which
16 you have had previously. One is to go over the
17 major features of SB 1389.

18 ADVISOR BAKKER: Karen, we're not
19 hearing you with the mic. You've got to get
20 closer.

21 PROGRAM MANAGER GRIFFIN: Okay. Is that
22 working now?

23 ADVISOR BAKKER: Yes.

24 PROGRAM MANAGER GRIFFIN: All right. My
25 part of the proceeding today is to go over two

1 elements of this: the statute, SB 1389, and the
2 staff's proposal to the Committee on how we think
3 that this proceeding might be accomplished.

4 SB 1389 was a major overhaul of the
5 Energy Commission's analytic activities and
6 somewhat of an expansion of our responsibilities.
7 It eliminated a number of our old reports, it
8 consolidated them all into a consistent framework.

9 In addition to consolidating our
10 requirements, it requires that we do two essential
11 kinds of activities. One is to provide to
12 policymakers and regulatory makers throughout the
13 state data, trends, outlooks, and analysis, an
14 analytic foundation for policymaking.

15 The second major element of it is that
16 we are required to actually make policy
17 recommendations to the Legislature through this
18 report. We make recommendations to the Governor
19 and then he sends some on to the Legislature.

20 It also, in a departure from some of the
21 past statutes, throughout the statute repeatedly
22 requires the various state energy agencies and the
23 independent system operator to work cooperatively.
24 We are designated as a list of nine agencies that
25 we are designated that we must consult with. It

1 designates that they must participate, and that
2 they must consider the results of this analysis in
3 their own proceedings.

4 The nine are the PUC, the Office of
5 Ratepayer Advocates, the Air Resources Board, the
6 Electricity Oversight Board, the Power Authority,
7 the Department of Motor Vehicles, CalTrans,
8 Department of Water Resources, and the Independent
9 System Operator.

10 In addition, we are directed to work
11 with any other state, federal or local agency that
12 also has a role to play in this issue; for
13 example, in some of the very first comments that
14 we got, we got a signed set of comments from the
15 South Coast Air Quality Management District about
16 the close link between electricity, transportation
17 and air quality, and the problems that they're
18 having to face. So we welcome the participation
19 of the South Coast district in addition to the Air
20 Resources Board.

21 The framework for the bill -- I'm going
22 to just go through briefly the major sections of
23 the bill. 25301 lays out the framework, and it
24 requires us, as I said, to do trends and outlooks,
25 so that kind of data. And the other one is to

1 identify problems, to do analysis, and make
2 recommendations.

3 It also sets out the structure in which
4 we are supposed to do this integrated work. We
5 are supposed to first look at three specific fuel
6 areas: electricity and natural gas,
7 transportation fuels, markets and infrastructure,
8 and what are called public interest energy
9 strategies. And that is more on the consumer side
10 and includes renewables, energy efficiency,
11 distributed generation.

12 There are a couple of other specific
13 reports that are required as part of this,
14 including a look at global climate change trends,
15 a look at our international energy program, and
16 our environmental performance of power plants, a
17 report that we already had started doing a couple
18 of years ago.

19 In terms of the way the staff is
20 organized, if you look at the chart that you've
21 been given when the lights come back up, you'll
22 see that I'm the manager for the overall project.
23 Al Alvarado is the manager of the Electricity and
24 Natural Gas Report, Chuck Mizutani is the manager
25 of Transportation, and John Sugar is the manager

1 of the Public Interest Energy Strategies Project.
2 They, with me, the Executive Office and a couple
3 of other folks then form the team to sort of pull
4 this all together.

5 25302 is about the integrated features,
6 so we're sort of going at this three reports
7 leading to an integrated report, but with
8 integrated features that flow through all of the
9 reports. And the integrated features are first on
10 a common framework, so we're starting from 2003 to
11 2013, where we will be doing forecasts of supply,
12 demand, price, reliability, and efficiency.

13 We then have to use a look which looks
14 at not only energy, but how energy affects the
15 economy, general welfare, public health and
16 safety, the environment, and reliability. For
17 those of you who are familiar with the old
18 electricity report activity, you'll recognize the
19 five balancing humors that we've been talking
20 about for 20 years.

21 So what has happened now is that the
22 Legislature has decided they want that kind of an
23 integrated framework carried out through all of
24 the fuel sectors. So we will be using those
25 lenses to look at all of the energy issues.

1 This is for when you're, for your
2 reading pleasure, when you want to go back and
3 look at the statute, what is actually required in
4 each of the three specific subreports. This just
5 gives you the citations for the subreports of what
6 is in each of the sectors.

7 Say, for those of you who are in the
8 transportation sector and are looking at this and
9 are going hmm, there is this thing called the
10 Energy Commission ARB Strategies to Reduce
11 Dependence on Petroleum; how does that fit in?
12 Well, that work will flow directly into this
13 report.

14 So we will be using that as the primary
15 vehicle to be addressing a lot of transportation
16 issues, and then we'll be able to build on things
17 for this, which has to be done in November. So
18 they'll just flow directly one into the other.
19 There is not any duplication in that activity.

20 Public process: We are given authority
21 in the statute to ask for demand forecasts, market
22 assessments, resource plans or other assessments
23 that are necessary to fulfill the nature of the
24 work that's been done. For example, there is
25 no -- Again, for people who are familiar with the

1 electricity and natural gas sector, the staff has
2 taken on the responsibility of proposing to do the
3 electricity and natural gas and the transportation
4 demand forecasts.

5 We're doing them, we'll put them out for
6 comment and invite participation, but this is not
7 starting the way that the old processes used to
8 do, where the first set of folks who had to volley
9 something in were either the utilities or sort of
10 their successors. But there is some activity that
11 will be done in this report which staff simply
12 does not have the expertise to do or doesn't have
13 the resources to do.

14 And if you and the Committee decide that
15 these are critical issues that have to be
16 addressed, the Committee may be directing market
17 participants to file information that is relevant
18 to their decisions.

19 The second case is the coordination with
20 other state agencies. As I said, we must consult
21 with them, they must participate with us. We must
22 send them the results. They must either use the
23 results or justify why they don't, because they've
24 got some more relevant data or newer data that
25 they think is more useful to their process.

1 In terms of the public process that's
2 involved here, we are required to hold public
3 workshops and hearings on both the factual
4 material that we are addressing and the policy
5 recommendations. In order to do that we have set
6 up a web site within the Energy Commission's web
7 site. There is an automatic listserv. If you
8 just sign up there, you'll get automatic
9 notification anytime something is posted.

10 We also have both an e-mail mailing list
11 and a paper mailing list, which we'll be refining
12 as this process gets going so that we can keep
13 people informed and to have a good exchange of
14 data.

15 And finally, 25307 requires that we send
16 this report to the Governor, and the Governor has
17 90 days to review it and send it on to the
18 Legislature, either agreeing with it or making
19 modifications as he or she so chooses, at which
20 time it becomes the Governor's Energy Policy
21 Report.

22 That's my summary of the statute. Do
23 people have questions about the statute before I
24 move on to the staff presentation?

25 Okay, thank you. I'm going to now move

1 on to what the staff proposed to do. Now, when we
2 worked on our proposal, Commissioners, we worked
3 primarily on what it is that the staff felt that
4 we could provide as the primary workhorses. And
5 we tried not to emphasize too much things that
6 other parties, you'd have to rely on other parties
7 to do the primary work on.

8 Some of the comments that you've
9 received already indicate key areas, for example,
10 a real emphasis on financial, financial and
11 capital conditions that's been raised by Southern
12 California Edison. And that, again, may be one
13 where some other parties just had the expertise
14 that we don't.

15 But we set up a general structure, I
16 think it's sort of fairly obvious. You collect
17 the information, you look at what the current
18 trends tell you, think about what the
19 uncertainties are, try to develop some scenarios,
20 understand the implications of that, identify
21 problems, do some analyses and come up with
22 recommendations about action steps.

23 Another key format of this statute is
24 that it really emphasizes the most current and
25 pressing issues facing the state, so there is a

1 lot of background information that we'll provide
2 for general policymaking over a period of time.
3 But the specific policy recommendations are
4 supposed to be on the most current and pressing
5 issues facing the state. So we will really have
6 to winnow that to identify actions that the state
7 can take in these areas.

8 In terms of consulting with other state
9 agencies, I've already told you about that. The
10 Committee has sent letters to each of the other
11 state agencies, inviting them to participate.
12 We're going to set up an interagency staff working
13 group and what we call a buddy system, where we're
14 going to be asking the other agencies to help us
15 identify proceedings, analyses, decisions that are
16 coming out of there that we can use.

17 So if an issue is really being dealt
18 with at the independent system operator, we don't
19 want to reduplicate it, we want to go there and
20 draw that information back into this proceeding.
21 So that's an important feature of this which we
22 hope is going to be a change from sort of past
23 practice of trying to get people to, everyone come
24 into individual proceedings and address issues
25 there.

1 On the Electricity and Natural Gas
2 Demand Trends and Outlooks, that's the first one
3 we're proposing to do, this is -- we're looking
4 both at California in our usual detail, but we're
5 also collecting and trying to assess demand
6 forecasts throughout the West.

7 Because for all of the fuels that we're
8 looking at, the West is becoming an increasingly
9 integrated region. California doesn't go it
10 alone. We don't control our own destiny, we're
11 part of a regional structure and we have to
12 operate as a member of a regional structure, which
13 means we need to understand the rest of the West
14 as well.

15 One of the sort of new features that
16 we're proposing for our demand forecast is to have
17 an increased understanding of seasonality,
18 particularly in the gas sector, which means having
19 a better understanding of how weather impacts our
20 demand forecasts, and perhaps increased emphasis
21 on volatility in demand, particularly that
22 associated with weather and with the interactions
23 between the electricity and the natural gas
24 demands forecasts.

25 On the supply side, we're going to be

1 looking at both the near term, the 2002 to 2004
2 where, in large part, you have a moderately good
3 handle on which individual units are going to come
4 on line, which individual units might retire,
5 which transmission lines are more or less likely
6 to show up.

7 And then in the midterm, the 2005 to
8 2006, what is that part of the supply industry
9 that we are going to want to affect by the choices
10 that we collectively, market participants and the
11 state make? So that's obviously an area for a
12 much more scenario, an analytic and less of a
13 bean-counting kind of approach to things, although
14 I like beans.

15 (Laughter.)

16 PROGRAM MANAGER GRIFFIN: We also are
17 required to do Trends and Outlooks on Energy
18 Efficiency, and Renewables and R&D, in terms of
19 what's going on now and what we see coming in the
20 near future.

21 As I said, in the transportation sector,
22 a lot of that work is already under way through
23 the strategies to reduce petroleum dependence. If
24 you've been participating in that proceeding, you
25 know of some of the trends that they've already

1 identified in their 20-year forecast, and that is
2 that there is likely to be increased demand for
3 transportation fuels in this state, a combination
4 of population growth and vehicle miles traveled.

5 You know that our refineries are near
6 capacity, and, with the phaseout of MTBE and its
7 increased demand, it's likely that we are going to
8 be having to increase our imports of petroleum
9 products in order to meet our petroleum demand in
10 the near term. So that's going to have some major
11 implications, both for our infrastructure, and
12 potentially for our fuel prices.

13 But in the longer term, it is an area
14 perhaps where the state can have a bigger impact
15 on modifying transportation demand, which is
16 obviously key to dealing with our transportation
17 fuels problem.

18 The statute also requires us to report
19 on the Trends in International Energy Business,
20 you know, for our export program, both trying to
21 increase the visibility of California business in
22 the overseas markets, and introduce interesting
23 innovative energy technologies from foreign
24 countries to come and invest in California and to
25 bring their new ideas here.

1 On the potential issues, these potential
2 issues, when we looked, staff went through a
3 process of pulling together all of the various
4 specific issues that we thought we could work on,
5 and as we looked at those, we saw that there were
6 several cost-cutting themes that could be
7 addressed in each of the fuels areas.

8 So we're looking at each of these
9 things, in terms of the infrastructure and
10 constraints, because that's a common issue, there
11 may be things that we can learn from one fuel
12 source and apply to another, but a lot of the
13 tradeoffs that will be made, obviously, will be
14 made within a fuel sector.

15 When you're thinking about electricity,
16 you're thinking about electricity transmission,
17 certain natural gas implications, conservation and
18 renewables. That's kind of a package that you
19 look at, and again, in transportation, the package
20 that you're looking at tends to be within
21 transportation alternatives, supply, demand, and
22 infrastructure.

23 So the four key themes that we came up
24 with were infrastructure and constraints; the
25 second one was adequacy, reliability and risk; the

1 third was price volatility and consumer response;
2 and the fourth one was the state and global
3 economy -- environment, thank you.

4 On the infrastructure constraints, when
5 you look at the staff paper, there are some
6 suggestions for areas in which we think that there
7 are going to be some key problems in
8 infrastructure. For example, in the transmission
9 area, the Independent System Operator, the Western
10 Energy Coordinating Council, and what's called the
11 SEAMS groups, among the various regional
12 transmission organizations, are working very hard
13 to identify what beneficial transmission ought to
14 be built.

15 There is definitely a state role in
16 trying to figure out one, what beneficial
17 transmission ought to be built, and two, if that's
18 decided, what role can states play in helping that
19 come about. So that's a key infrastructure issue
20 leading to specific state actions to try to
21 facilitate that transmission that we need to get
22 built so that it does get built.

23 Similarly, in a gas pipeline area:
24 Right now we seem to have an adequate amount of
25 gas pipelines in storage for the next couple of

1 years, but certainly at some point we will be
2 needing additional gas pipelines in storage. And
3 my question is when is that, what kind is that,
4 and is there a state action needed to take care or
5 that, or is the gas market sufficiently mature
6 that it will naturally build the pipelines and
7 storage that need to be built.

8 Another infrastructure issue which has
9 been raised is the potential impact of liquefied
10 natural gas. There is a lot of interest in
11 developing a liquefied natural gas at facilities
12 either in California or in Mexico. Some concern
13 that a good deal of the capital which might go
14 into transmission or gas pipelines or power plants
15 will be attracted to the investment opportunities
16 in liquefied natural gas. So there may be some
17 interesting pressures on the capital markets and
18 the role of liquefied natural gas.

19 And so this is an interesting area where
20 one kind of fuel type might draw capital that
21 would otherwise be available to other fuel types,
22 although there is no direct, so that when you get
23 to the consumer end of the line, relationship
24 between the two fuels.

25 Another near-term issue, which I'm sure

1 all of you in the gasoline area or the
2 transportation fuels area very well understand is
3 the problem of, as MTBE has phased out, how are we
4 going to have adequate infrastructure to serve
5 California's gasoline demand in the next couple of
6 years. It's obviously a very high priority issue.

7 In the adequacy, reliability and risk
8 area, then we have identified some issues here.
9 Another issue that's been brought up by Southern
10 California Edison was their concern about the
11 financial impact, that you can't just talk about
12 market uncertainty or physical uncertainty or
13 regulatory uncertainty, but also the capital
14 markets which are playing a huge impact in what is
15 going on and the credit agencies.

16 And bankers, for the next couple of
17 years, are going to be big players in the
18 electricity industry and really shaping what can
19 be done so that we should, in terms of deciding
20 what the state should do, need to look at sort of
21 a whole fourth area of uncertainty in allowing our
22 markets to develop.

23 On price, volatility, and consumer
24 response, this is one of the most interesting
25 areas in the energy industry right now, because

1 it's so different in the different sectors. We
2 know, for example, in the gasoline sector that
3 prices have been volatile for nearly a decade, and
4 for the most part, well, consumers adjust or they
5 don't adjust, but they have been seeing volatile
6 gasoline prices.

7 Traditionally, we did not have very
8 volatile electricity prices. We did have
9 extremely volatile electricity prices for a couple
10 of years, and now have long-term contracts that
11 are going to perhaps set a higher level, a higher
12 but more stable level of electricity prices for
13 the next several years. But what are those kinds
14 of things going to mean for consumers?

15 Similarly, in the natural gas area where
16 prices are passed directly to consumers on a
17 month- or every two-month lag, if we get into the
18 situation of price fights or greater seasonal
19 volatility or greater volatility in the overall
20 gas market, because the natural gas market and the
21 electricity market are so tied together that small
22 slips in one or the other immediately feed back,
23 and, as you're making these little choices on the
24 margin, you can get very rapid spikes in prices.

25 So we are expecting an increased

1 volatility in the natural gas market. We're
2 expecting that that is going to have an impact on
3 consumers, and it's going to feed back, flow back
4 into prices in the electricity sector as well.

5 What do all these prices mean for the
6 cost effectiveness of energy efficiency, the
7 desire for people to invest in distributed
8 generation, their general comfort of is the state
9 providing them the kind of electricity, natural
10 gas and transportation world that they want to
11 live in? Is it too high and stable? Is it too
12 risky and volatile? You know, what is it that the
13 various classes of consumers feel is an acceptable
14 business environment, an acceptable home
15 environment, again, are issues that need to be
16 dealt with, and when the state starts making its
17 choices about how to structure some of these
18 markets.

19 Lastly, on the state and global
20 environment, 90 percent of Californians live in
21 areas that do not yet have healthy air. The area
22 is concerned with meeting the ozone standard, the
23 area has, for the last five years, ten years, I
24 don't know, been increasingly concerned with the
25 role of particulates in health. And there is an

1 increasing emphasis on the tradeoffs associated
2 with fresh water. So the big ticket, electricity
3 and natural gas and transportation environmental
4 issues that we need to look at.

5 One thing we're going to do, I don't
6 know how many of you are familiar with the
7 environmental performance indicators for
8 California. This is an interagency report that
9 was just finished. We put the web site address up
10 there which provides a base line on both
11 background indicators and a whole host of health
12 and safety land use indicators. And we are going
13 to be using this as a format and a resource and
14 asking other agencies to help us update it to
15 understand how energy affects these various
16 environmental performance indicators for the
17 health of our state.

18 We're also working with our global
19 climate change staff on understanding both what
20 implications climate change might have on our need
21 for energy, and what our energy use strategies can
22 do to affect climate change.

23 Lastly, we are going to be continuing to
24 a specific study on the environmental performance
25 of generating facilities. We've done one of those

1 already a year ago, and it's available on our web
2 site that's now been incorporated into this report
3 and will be continued as part of our electricity
4 and natural gas focus.

5 That concludes my summary of staff's
6 proposal about how to address these issues.

7 PRESIDING COMMISSIONER BOYD: Thank you,
8 Karen.

9 I'd like to ask the audience now, before
10 we go into testimony, if there is anyone who has a
11 question they'd like to ask as a result of hearing
12 this presentation that perhaps they might not
13 otherwise cover in their planned testimony or what
14 have you, now would be an appropriate time to ask
15 that question; otherwise, we'll move on to more
16 presentations from other agencies.

17 There is a question. Mr. Trindade,
18 please identify yourself for the record, if you
19 would.

20 MR. TRINDADE: My name is Sergio
21 Trindade from SE2T International. First of all,
22 I'd like to congratulate the staff for the very
23 comprehensive presentation and approach. I think
24 it's balanced and focused. Some of what I'm going
25 to comment and ask has already been covered, but

1 perhaps it could be made more explicit into the
2 drafts and the communications.

3 I have basically two questions. Number
4 one, how would climate considerations become an
5 explicit component of the report? There are
6 references here and there, but I would like to see
7 in a more explicit way if it is coming in that
8 way.

9 And second, you also mentioned that, but
10 how would other pending energy and climate
11 legislation in the state of California be woven
12 into the report? You said at one point the energy
13 dependency required a little, well, flow directly
14 into the main report; however, the energy
15 dependence report is not supposed to make policy
16 formulations or suggestions as opposed to this
17 report, which I understood is going to make some
18 policy recommendations.

19 So how would AB 1493, SB 1771, SB 527,
20 SB 812, et cetera, et cetera, be integrated, since
21 this is an integrated energy report into your
22 final report? Thank you.

23 PRESIDING COMMISSIONER BOYD: I'll let
24 Ms. Griffin make the first response and I'll
25 augment if I feel so inclined.

1 PROGRAM MANAGER GRIFFIN: What we have
2 proposed to do is sort of threefold: one, the
3 statute specifically requires us to do, to look at
4 global climate change impacts on California and
5 the impacts of various proposals that we might
6 make on global climate change, so those -- a
7 trends look sort of going both ways, that we're
8 required to do that.

9 We're trying to set up an environmental
10 framework that would be used in each analysis, so
11 one of the questions would be, as we're analyzing
12 tradeoffs, say, between adding additional gas
13 generation near load centers or adding
14 transmission and having generation be located out
15 of state, one of the factors that would be
16 required in that analysis would be and what impact
17 would this have on climate change emissions.

18 The third part would be what kind of
19 policy recommendations come out of that
20 information, and that -- I think that they would
21 just emerge if people do identify them.

22 PRESIDING COMMISSIONER BOYD: That will
23 prove to be an interesting exercise. And
24 Mr. Trindade, I heard in your question the
25 suggestion that climate change is deserving of

1 fairly significant consideration and I think the
2 response indicates that it's recognized as a
3 significant issue.

4 The responsibility that Chairman Keese
5 and I have is hearing from the staff and then
6 hearing from all of you in the audience how should
7 we exactly train the scoping document that will
8 outline what we will cover. And so you've made an
9 excellent point.

10 Now, the second half of the question:
11 How all that legislation, some of which does not
12 call for policy recommendations, will be
13 integrated into the report.

14 Do you want to respond to that, or --

15 PROGRAM MANAGER GRIFFIN: I would defer
16 to Chuck Mizutani, the man -- I just am not that
17 familiar with those statutes, so I can't answer to
18 it.

19 PRESIDING COMMISSIONER BOYD: All right.
20 Chuck has risen in the audience and is coming to
21 the table.

22 STAFF MANAGER MIZUTANI: Chuck Mizutani.

23 Basically, the intent is that the
24 activities that are in the individual legislation,
25 what we anticipate doing is taking the information

1 or the activities that come out of the individual
2 pieces of legislation that you identified and
3 using that as information to this process.

4 To the extent that there is any policy
5 that is occurring in any of those pieces of
6 legislation, we would basically do the same in
7 terms of taking that information. For the most
8 part, the legislation, with the exception of AB
9 1493 for the most part are implementation
10 legislations that basically would be generating
11 information in those particular forums.

12 So you talk about the -- for the most
13 part they're identified in terms of the California
14 Action Registry activities, and we are
15 participating in that and providing technical
16 assistance to the registry on the various
17 activities. That information, though, would be
18 part of this process.

19 PRESIDING COMMISSIONER BOYD: Thank you,
20 Chuck.

21 Now I would like to call upon any of our
22 sister agencies who would like to make any kind of
23 a statement. I do have a blue card from the ISOs,
24 so I'll call from them first as a quasi sister
25 state agency. But following that, with slight

1 notice to the rest of the government agencies, if
2 any of you want to come to the mic and say
3 something, please feel free to do so.

4 MR. GRAVES: Good afternoon,
5 Commissioners. My name is Kevin Graves. I work
6 for the California Independent System Operator in
7 the Engineering and Maintenance Department. I am
8 the manager of the Loads and Resources Group. I
9 just want to provide a few brief comments here.

10 First of all, I'd like to express the
11 ISO support for this effort. We think that a
12 comprehensive energy policy report would provide
13 numerous benefits. A report that addresses the
14 interrelated energy-related issues would certainly
15 provide benefit to the ISO.

16 In terms of anticipating future
17 operational issues, I can tell you in the past
18 that some of the interrelated issues,
19 environmental impacts on resources, fuel delivery,
20 gas delivery to plants has kind of caught us by
21 surprise in the past. I'm sure during the energy
22 crisis you heard a number of issues like this
23 arise in the newspapers.

24 We do want to express our support for
25 this and are ready to assist in this effort. We

1 will provide written comments on the staff's paper
2 in the next couple of weeks. I guess from the
3 ISO's perspective a couple of the major issues
4 that we see related to this report would be
5 establishing appropriate incentives for
6 development of generation, coordination of
7 generation and transmission additions.

8 I can tell you from the planning
9 perspective, we struggle a little bit with
10 coordinating the addition of transmission
11 facilities with generation projects five years
12 down the road and all the uncertainties
13 surrounding whether or not generation does indeed
14 get built and do you plan on it being there or
15 not. I think an integrated or comprehensive
16 report looking at these select issues would help
17 us out.

18 We certainly are concerned with -- Let
19 me back up here a little bit. In the summer of
20 2000 it was certainly our opinion or belief that
21 there was a real resource deficiency in California
22 or in our control area and the resources were
23 inadequate to meet our peak loads during that time
24 frame. And we've had a number of -- you know, a
25 great deal of generation has been added over the

1 last couple of years -- in essence, thousands of
2 megawatts -- and it's our opinion that the
3 addition of these facilities has kind of just put
4 us to a level of resources that provides us, you
5 know, a reasonable operating margin to deal with
6 the day-to-day fluctuations and great operations
7 that we have.

8 So I guess looking forward, I would say
9 we need generation additions to at least keep pace
10 with demand growth. And I think, you know, this
11 effort to involve all state agencies in the
12 various issues will go a long way to addressing
13 those issues.

14 As far as the ISO and what we can do or
15 the value I think we can bring to the table in
16 preparing this report, clearly our expertise in
17 the area of grid operations is I think where our
18 greatest value will, the greatest value we can
19 bring to the table here.

20 It's not only the ISO control area
21 operations and the day-to-day issues we face in
22 meeting local area demand requirements, transfers
23 across major transmission paths, but we also have
24 a fair amount of insight into the regional
25 operations of the grid throughout the WEC system.

1 We can also provide quite a bit of input
2 into the transmission planning issues. You kind
3 of hit on some of those earlier and kind of our
4 struggle at balancing, you know, building
5 transmission versus generation in an area to
6 offset the transmission. And I think to improve
7 the planning process, a greater level of certainty
8 with regard to the knowledge of where and what
9 plants will actually be built in the coming years
10 would help us out a lot in that planning arena.

11 And I think we can also help in
12 analyzing historical operational data that may
13 prove valuable in establishing the trends and such
14 that Karen spoke of. So I guess generally
15 speaking, I just want to say thank you for the
16 opportunity to comment, and we do look forward to
17 participating in this effort.

18 PRESIDING COMMISSIONER BOYD: Thank you,
19 Mr. Graves. I appreciate the ISO's support of
20 this effort. Even though I referred to you as a
21 quasi state agency, don't let that panic you. I
22 know it's the independent operator, but I would
23 say over the past couple of years as we've woven
24 our way through the energy crisis, many of us have
25 spent a lot of time interacting with the ISO on

1 keeping the lights out on a day-to-day basis.

2 And we much appreciate the collaboration
3 and cooperation we've had, and we've had our
4 differences as well on different kinds of policy
5 issues. But I really look forward to us
6 continuing to work together.

7 So you can tell your management that I
8 really welcome you with open arms into our
9 collaborative association here. Thank you.

10 Next, Kellan Fluckiger of the California
11 Power Authority.

12 MR. FLUCKIGER: Thank you, Mr. Chair.

13 I just wanted to have a brief moment.
14 We certainly at Power Authority enthusiastically
15 support this undertaking by the Energy Commission,
16 and certainly look forward to the robust
17 collaboration and the spirit in which you've
18 introduced the proceeding.

19 I was focusing on something that you
20 said initially about the words "integrated
21 policy." And I would simply want to encourage us,
22 as we think about this, these recommendations to
23 think about them in the most proactive way
24 possible. One approach is to analyze what is
25 going on and then react to it or recommend what we

1 should do about that.

2 A more proactive approach that I would
3 encourage us all to take as we think about it is
4 to think about where we would like to be, in terms
5 of the elements that Karen outlined, market
6 volatility, level of dependence on imports of fuel
7 or electricity, whatever, and then articulate
8 policies to move us in that direction.

9 And thinking about it that way I think
10 will certainly bring about the desired outcome,
11 but will also give the Governor and the
12 Legislature the tools and recommendations to move
13 toward a vision that we could help create I think
14 with this report. So my reaction was just to
15 encourage us to think in the most proactive way
16 possible with our recommendations.

17 The Power Authority certainly views
18 itself as having things to bring to this process,
19 and appreciates very much being included. We
20 have, as you know, a rulemaking on reserves going
21 on now. We have an investment plan that serves as
22 our guide to how we might invest money, and we may
23 end up being a vehicle for implementation of some
24 policy recommendations that may come from this in
25 terms of how the state may wish to proceed in

1 realizing some actions here.

2 So we certainly also wanted to emphasize
3 again our focus on demand and renewable sectors.
4 Karen mentioned those, of course, and we simply
5 want to underline emphasis on those areas, because
6 we view them, along with distributed generation
7 and those kinds of things, as certainly viable
8 considerations for our policy menu going forward.

9 Thank you very much.

10 PRESIDING COMMISSIONER BOYD: Thank you,
11 Kellan. We very much appreciate it. Another
12 person with whom I've had to live, seems like, for
13 the last two years. Appreciate the cooperative
14 effort we've had. Getting sick and tired of
15 seeing you, Kellan -- No, I --

16 (Laughter.)

17 PRESIDING COMMISSIONER BOYD: Kellan and
18 I are on the phone 8:00 o'clock almost every
19 single morning with a host of other people.
20 Getting old after a couple of years now.

21 Anyway, I really look forward to working
22 with the Power Authority. Kellan made reference
23 to the reserve margin study that they're
24 undertaking, and the Power Authority has been most
25 gracious in inviting me to sit with them and their

1 board on their dais on a couple of occasions in
2 pursuing that question, and I frankly look forward
3 to the day when we get to specific issues and
4 having public hearings on this issue with having
5 members of the Power Authority board sitting up
6 here with me.

7 And small examples to the public of the
8 fact that the state agencies really are working
9 closely together and are trying to integrate their
10 activities.

11 And just one last comment. Kellan spoke
12 about integrating in the broadest sense among
13 systems, design systems analysis -- at least,
14 that's the way I take some of what he said -- and
15 I am a keen supporter of that approach. I have
16 just enough engineering education to be dangerous
17 on that thought, so I am very much concerned about
18 scenarios and the systems implications of a lot of
19 what it would do. So I look forward to those
20 kinds of comprehensive analyses.

21 Now we have several other sister state
22 agencies mentioned in the log, but no blue cards
23 from any of them. I'll give one last opportunity
24 to any of them to say anything, if they would
25 like. If not, I will proceed with other members

1 of the public who have signed up to testify.

2 Okay. Such great teamwork when it's
3 unnecessary.

4 All right. Moving to those who have
5 signed up for public testimony, not necessarily in
6 alphabetical order but just the way the cards have
7 fallen here, the first person I have signed up is
8 William Ahern of the Consumers Union.

9 Bill, I can't help if your last name
10 starts with an A, or maybe we just enjoy your
11 testimony so much I wanted you up here quickly.

12 MR. AHERN: Thank you, Commissioner
13 Boyd. I have a sense of deja vu here. I see some
14 people in the audience that I worked with on the
15 first biannual report of the California Energy
16 Commission in 1977, and the staff right up here
17 says that you hope to be focused and selective,
18 and I want to give you our best wishes in being
19 focused and selective.

20 In this first effort, this is volume one
21 of 12 volumes. It wound up being so heavy that it
22 collapsed the floor of the storage room at the
23 Energy Commission at the time. Thankfully, nobody
24 was hurt.

25 PRESIDING COMMISSIONER BOYD: I heard

1 that story.

2 MR. AHERN: But the theme of the first
3 biannual report actually talks about risks and the
4 benefits of flexibility and diversity. And I
5 think the themes are very much the same today,
6 except then the future was a nuclear base load
7 future. And now we have the most fragmented
8 energy system in the country here in California,
9 more than a thousand power plants that the ISO has
10 to coordinate. Nine agencies, Karen, nine?
11 Multiple agencies and a lot of challenges.

12 So we at Consumers Union would just hope
13 to see a heavier emphasis on consumer protection
14 and getting costs down for consumers. Energy
15 costs for gasoline and electricity in California,
16 when you travel to any other state you're just
17 tremendously, you feel tremendously abused as a
18 consumer here in California.

19 We have to get the costs down for
20 business, for the economy, and for particularly
21 large residential consumers. So I hope you'll
22 have a real emphasis on that, because the hangover
23 we have from the energy crisis, the billions of
24 dollars in contracts and energy bonds is a
25 tremendous challenge, and it's going to cause

1 disruptions in the California economy for at least
2 a decade.

3 Just a couple of topics we hope you'll
4 address, and we'll file some written comments, but
5 you've got to talk about roles and
6 responsibilities. Who in California is
7 responsible for providing the infrastructure for
8 reliability?

9 That is still uncertain. It is
10 embarrassing that the Federal Energy Regulatory
11 Commission chairman, Pat Wood, has to have in his
12 speeches that California has got to get its act
13 together on transmission infrastructure,
14 generation infrastructure, and demand
15 responsiveness.

16 The Federal Energy Regulatory
17 Commission, as you know, does its own western
18 market and infrastructure assessment. And its
19 conclusion is there is not enough infrastructure
20 to support fully competitive markets during peak
21 periods in the western states. And that western
22 markets are susceptible to disruption with low
23 reliability and high prices caused by heat
24 dryness, and accelerating economic growth.

25 The Federal Energy Regulatory Commission

1 has really identified us as an energy basket case,
2 and we need to do a lot of work to rehabilitate
3 the institutions in this state, whoever the load-
4 serving entities are supposed to be. And we need
5 to get off, we need to somehow avoid all of this
6 ethanol from Iowa, please, somehow help us avoid
7 this.

8 So I just want to wish you best of luck
9 in being selective and focused, and best wishes in
10 this effort. And you've got a very talented staff
11 and a good process, and so we're very much looking
12 forward to participating in Consumers Union.

13 PRESIDING COMMISSIONER BOYD: Thank you,
14 Mr. Ahern. I hope that that report in which you
15 participated previously had nothing to do with
16 where we are today.

17 (Laughter.)

18 MR. AHERN: It's somewhat implicated in
19 the phrase. It even called for the creation of a
20 power authority 26 years ago.

21 PRESIDING COMMISSIONER BOYD: What
22 foresight.

23 (Laughter.)

24 PRESIDING COMMISSIONER BOYD: Anyway,
25 thank you for those comments. I'm not sure -- I

1 don't want to turn this into a political forum.
2 I'm not sure everybody agrees with the doctor who
3 diagnosed all that ails California, but, as I
4 said, I don't want to turn this into a political
5 forum. I will take everything as a positive
6 suggestion and perhaps we in the west need to
7 travel east more often, and those in the east
8 maybe need to come out here and see what we're
9 doing a little more often.

10 But that's not to say we've got it all
11 together either. So hopefully out of this
12 exercise will come some good direction. Thank
13 you.

14 And with that, I'd like to call upon
15 Manuel Alvarez, Southern California Edison.

16 MR. ALVAREZ: Good afternoon,
17 Commissioner. Manuel Alvarez, Southern California
18 Edison.

19 We did file a letter with the docket, I
20 believe you have it --

21 PRESIDING COMMISSIONER BOYD: We
22 acknowledge your letter, yes.

23 MR. ALVAREZ: -- and I don't want to go
24 through that in detail. It basically is having
25 some effect. Ms. Griffin identified the issue of

1 capital investment necessary for infrastructure
2 and the risks that exposes in California, so I'm
3 pleased with that.

4 What I'd like to do is basically bring
5 up a couple of other items in my letter just to
6 highlight those for your consideration, in terms
7 of the agenda you're going to set here for the
8 future.

9 I want to point out the issue of state
10 and federal efforts. I raised that in my letter.
11 It came up earlier from Mr. Ahern. You brought it
12 up as an issue between the state and federal
13 government. I think this is a great opportunity
14 for the committee to perhaps step back a bit, put
15 your analyst hat on, and look at the relationship
16 between the state and the federal government and
17 where the responsibility lies for regulatory
18 activities.

19 And I believe you can do that in a
20 manner that actually makes progress on defining
21 those relationships. I know at times it does take
22 on political character and I don't think you can
23 help doing that, but I think your analytical
24 capabilities can actually shed some light on those
25 particular relationships and I think they're very

1 important to address for the state.

2 This Commission has been very supportive
3 of field diversity, I raised that in my letter,
4 for your additional consideration and looking
5 forward. You're aware that we have a lot of gas,
6 I don't think I need to reinforce that, that there
7 are some issues dealing with new technologies,
8 install cost, operation characteristics, et
9 cetera, especially some of the new technologies
10 that are being looked at by this Commission that I
11 think deserve your analytical capabilities.

12 And then I'd like to just raise a number
13 of questions that in the staff report I didn't
14 believe were covered adequately that I think you
15 need to consider in terms of looking at this
16 entire state integration. And the first one deals
17 with this question of voluntary initiatives or
18 command and control techniques, and I think there
19 are serious policy questions as to what method
20 we're going to use in California to test new
21 regulatory approaches, and I think it does take on
22 the character of voluntary or thematic control. I
23 think wrestling with that issue at a policy level
24 is important.

25 The energy future I think is something

1 that this report has to address, and that's why I
2 raised the question of what roles the investor-
3 owned utilities are going to play in research and
4 development and deployment of rate-payer-funded
5 research. The Commission has now had four years
6 of experience with the PIER program and it's
7 probably time to figure out how that gets
8 deployed, how that interface between the utility
9 companies and the research that's being undertaken
10 is developed, and I'd like for you to discuss that
11 issue in your report.

12 The degree to which consumers are going
13 to be allowed to experience volatility of price, I
14 think historically we are aware that the cost of
15 electricity varies over time. I don't think
16 that's a revelation here, but it is important to
17 ask ourselves how much are we going to let
18 consumers experience that in some sense? And I
19 think once you put that issue before you at the
20 policy level, you'll find some interesting points
21 for policy deliberation.

22 The regulatory treatment for removal
23 resources needs to be understood. We're not
24 exactly sure what the regulatory framework will be
25 to allow the state to fulfill its renewable goals

1 and what kind of disclosure and reporting
2 requirements are going to be imposed on that
3 sector.

4 The staff report talks about scenarios,
5 in terms of developing scenarios. And while that,
6 in and of itself, is a worthwhile effort, I think
7 one of the key elements of developing the scenario
8 is to understand what's driving the scenarios and
9 why they produce different policy results and
10 implications. I think on the Committee level I
11 think highlighting those key drivers in each of
12 those scenarios is an important contribution that
13 the Commission can make to the entire energy
14 sector.

15 And then there is the issue of security,
16 not only physical security for the infrastructure
17 for the state of California, but also the
18 development of new technology and computers
19 exposes that system to Internet cyber attacks, if
20 you will, in terms of potential -- I think the
21 Commission experienced that just recently. I
22 think anybody who is involved in information
23 technology is keenly aware of the potential
24 vulnerabilities that new systems and information,
25 transfers and management systems and controls

1 expose a system to. And I think you need to put
2 that on your agenda.

3 And then finally, as you're looking at
4 all of these issues that are in the staff paper
5 and the issues that I raise and other folks raise,
6 I think I'd like to ask the Committee to kind of
7 step back a little bit, once you have all of that
8 analysis done, and kind of ask the fundamental
9 question of what are the implications to the state
10 of California, to the consumers, to the industry
11 and to the entire state. And perhaps take a fresh
12 look from that perspective once all the analysis
13 during the process is completed.

14 And with that, I'll answer any
15 questions. Thank you.

16 PRESIDING COMMISSIONER BOYD: Thank you,
17 Manuel. Those are good additions to the written
18 submission you've already provided us.

19 Manuel is another alumni of this
20 organization, if I remember correctly.

21 Next I have Jane Turnbull from the
22 League of Women Voters of California.

23 MS. TURNBULL: Commissioner and members
24 of the staff, I'm very pleased to be here today.
25 My name is Jane Turnbull and I'm here to speak on

1 behalf of the League of Women Voters of
2 California.

3 The League of Women Voters agrees with
4 the staff proposal that reports mandated by SB
5 1389 to be sent to the Governor and Legislature
6 should focus on the energy policy issues that are
7 likely to be of the greatest concern to the
8 state's policymakers. The League also agrees that
9 tremendous uncertainties remain in the structure
10 and design of the energy markets, financial
11 condition of the utilities and the energy
12 industries, and improvements needed to the energy
13 infrastructure.

14 It is utterly clear that California's
15 efforts to deregulate the electricity industry
16 have been a dismal failure, and that the people of
17 this state have borne and will continue to bear
18 the brunt of these mistakes for sometime into the
19 future. We all must agree that Humpty Dumpty has
20 had a nasty fall.

21 Before the State Legislature embarks on
22 efforts for reconstructive surgery, we need a
23 thorough effort to define the lessons learned from
24 the mistakes of the past and what we should be
25 doing in the future.

1 Over the past several months the Energy
2 Committee of the League of Women Voters of
3 California has met with a number of those involved
4 in assessing and evaluating the problems that grew
5 out of the original 1996 legislation. Some highly
6 respect experts have fought hard about what went
7 wrong. We feel that the good efforts of these
8 experts should be recognized and used.

9 California needs a comprehensive
10 analysis of the mistakes that have been made and
11 the implications of those mistakes. Based on such
12 an analysis, there is an urgent need to develop a
13 comprehensive vision of how the electricity
14 industry in the state should be structured and
15 governed. The staff proposal addresses the areas
16 vital to an adequate and effective energy system
17 for our state, but these should not be the only
18 considerations addressed in that first integrated
19 energy policy report.

20 We, the League of Women Voters of
21 California, offer to collaborate with the
22 California Energy Commission, the California
23 Public Utilities Commission, and the other
24 relevant state agencies to convene a panel of
25 experts in energy system governments to identify

1 the lessons that should be learned from the past
2 six years and the necessary conditions to be met
3 in managing and regulating our energy system in
4 the decades ahead.

5 We believe this is a critical first step
6 in establishing an industry that will meet the
7 legitimate concerns of all Californians:
8 reliability, cost, personal rights to a commodity,
9 the economic well-being of the state, and the
10 environmental consequences of the decisions that
11 will be made.

12 Thank you. We would like to submit
13 these comments to the dais.

14 PRESIDING COMMISSIONER BOYD: Thank you.
15 Please do. I very much appreciate and was
16 delighted to hear the League of Women Voters was
17 interested in this subject. I'm very keenly
18 interested in your offer of collaboration and,
19 although I can't bind the entire Commission, I'm
20 personally interested in anybody that's done any
21 work on the what went wrong relative to our past
22 mistakes and how to help us design our future, the
23 future of where we're going, at least in the
24 electricity arena.

25 Thank you very much.

1 The gentleman I was just about ready to
2 call on has left, so I'll shuffle the deck. Maybe
3 I'd like to change the subject here just for a
4 moment. There is more than electricity to this
5 world, and call on Jay McKeeman of the California
6 Oil Marketers to give us his perspective.

7 MR. McKEEMAN: Good afternoon,
8 Commissioner Boyd and staff. Thank you for the
9 opportunity to address the Energy Commission.
10 Yes, I'm going to change subjects here a little
11 bit off the electricity issue. Why did I know
12 that you would? You must be psychic.

13 PRESIDING COMMISSIONER BOYD: No, I've
14 known you too long, that's all.

15 MR. McKEEMAN: The issue that's been
16 mentioned previously today by staff, and I know
17 the Energy Commission is fully engaged on this
18 issue, is actually something that may move so
19 quickly that it might not wind up in the report,
20 and that's the conversion of MTBE gasoline to
21 ethanol gasoline.

22 We have worked with the Energy
23 Commission and continue working with the Energy
24 Commission and their Air Resources Board on the
25 issues that we anticipate may create significant

1 problems in the fuel supply and pricing in the
2 state.

3 But, in any case, we do think that it's
4 worth at least paying attention to this issue as
5 the report is put together and taking a look at a
6 couple of critical issues, and actually a couple
7 of critical issues that have come up just
8 recently. And we haven't had the chance to
9 address those issues formally with the Energy
10 Commission and I'd like to take a moment to point
11 those out.

12 First of all, one of the issues about
13 the ethanol distribution process is the storage
14 and something that our members have started to ask
15 me, and I frankly don't have an answer for it is,
16 is the need for additional ethanol storage going
17 to start competing with storage for other fuels
18 such as diesel at storage racks or in the fueling
19 system? And I don't know that that's issue has
20 been addressed, but it's something that I'd like
21 at least to put on the table currently.

22 Secondly, we have become increasingly
23 aware of the regulatory prohibitions that operate
24 in terms of the mixture of MTBE-containing fuel
25 and ethanol-containing fuel. There are two

1 regulatory issues here, primary regulatory issues.

2 The first one is a federal regulation,
3 and I have cc'd Gordon Schremp and Tom Glaviano,
4 and you'll be getting in the mail a letter from
5 our association and three national independent
6 marketer associations to federal EPA on a federal
7 regulation that prohibits the mingling of ethanol
8 and MTBE-containing fuels.

9 Basically, what we're asking EPA is
10 regulatory flexibility to -- if our members are
11 operating in concert with guidance, regulatory
12 requirements or dictates from state agencies, that
13 would be deemed compliance with the federal
14 regulation.

15 Secondly, the next regulation that's a
16 little bit more difficult to deal with but frankly
17 has the higher penalties in it is the state
18 revapor pressure regulation, which I'm sure you're
19 familiar with. The penalties there begin at
20 \$35,000 a day and can go up to \$210,000 a day for
21 the mixture of fuels that would create a revapor
22 pressure violation.

23 There may be times in the coming year
24 where our members are going to have to mix fuels
25 to get fuel to their customers. This includes

1 emergency services, school districts, local
2 governments, agriculture, any number of customers.
3 And we need to work on how to balance the RVP
4 violation and our need to supply our customers and
5 our customers' needs for fuels at any given moment
6 in a day.

7 So it's just another issue. We are
8 working extensively with CARB on this issue, but
9 it's something that I know the Energy Commission
10 has a role in as well, in terms of the contingency
11 planning role that you play when we start getting
12 into fuel pinches. Anyway, those are the issues
13 in terms of gasoline and MTBE conversion.

14 A couple of other issues more global --
15 not global but off the ethanol issue are one of
16 the things that we've talked about before and I
17 know that you're completely aware of it is that
18 there are constraints on increasing California's
19 refining infrastructure and our fuel supply
20 capacity.

21 And we frankly think that the Energy
22 Commission and the state need policies that
23 encourage refinery, increase or ground-up
24 structure or implementation and supply
25 infrastructure improvements in terms of reducing

1 the permitting burden that hinders those types of
2 activities.

3 Another issue that we're concerned about
4 is the conversion of the state to ultra-low-
5 sulphur diesel. 2006 is the target date. As we
6 all know, the best of programs have unintended
7 consequences, and we just ask the Energy
8 Commission to pay close attention to the
9 introduction of ultra-low-sulphur diesel as we move
10 towards 2006.

11 We're already seeing some creep into the
12 market of ultra-low-sulphur diesel. We anticipate
13 that to increase, and interestingly, that has the
14 same issues that we have with the MTBE and ethanol
15 gasoline, so I think we just need to be aware of
16 that kind of situation, where you have fuel types
17 that really can't be mixed in the distribution
18 system.

19 PRESIDING COMMISSIONER BOYD: We fixed
20 all the fuel pumps last time around, didn't we?

21 MR. McKEEMAN: Well, hopefully that
22 won't happen, but, you know --

23 PRESIDING COMMISSIONER BOYD: Strike
24 that comment --

25 MR. McKEEMAN: -- Murphy is always at

1 work.

2 (Laughter.)

3 MR. McKEEMAN: The other issue is will
4 there be a net reduction in supply of diesel as we
5 move to ultra-low-sulphur diesel.

6 Another issue with the ultra-low-sulphur
7 diesel is that California continues to have a
8 formula different than everybody else, and at some
9 point we would ask in this broad energy outlook is
10 it really worth the price that consumers and
11 California economy pays for having not
12 consequentially different fuel formulas than the
13 rest of the nation. Because that shuts us off
14 from outside supplies and creates, California
15 largely uses the most expensive fuel, at least in
16 the continental United States.

17 There are some more intricate issues
18 related to diesel supply in that diesel is not
19 always available where it needs to be at the racks
20 in the state. I know the Energy Commission and
21 the Air Board are working on that in Fresno, and
22 we need to take a look at other racks and see if
23 there are chronic shortages and what can be done
24 to help make sure the diesel is there when it
25 needs to be.

1 Another problem that we're facing, that
2 the independent marketers are facing is the
3 continuing and increasingly expensive equipment
4 requirements, and specifically I'm talking about
5 service station requirements. We're looking at a
6 new generation of vapor-type tanks. We're looking
7 at making improvements in doing very expensive
8 testing related to MTBE contamination in those
9 areas close to public water wells. And we are
10 also looking at a new regime of vapor recovery.

11 The problem here is that especially for
12 the stations that our members own and operate or
13 supply, they are typically low-volume stations.
14 They are in inner cities, they're in rural areas,
15 they're in areas that don't meet the major oil
16 companies' template for a profitable service
17 station, although our members figure out how to
18 make a profit.

19 The problem is, is that with the
20 continuing increased costs of these equipment
21 requirements, in fact, many times replacing
22 equipment that is, in fact, working satisfactorily
23 but it doesn't meet the new standard, we are
24 starting to see our members close down stations.
25 And that will continue as the price of the

1 equipment increases and the margin that they can
2 make on fuels decreases.

3 And that means that consumers are going
4 to lose choice, they're going to lose an
5 aggressive part of the market that typically
6 prices on the lower end, not the higher end of
7 fuel pricing. And it means that certainly they
8 lose a lot of convenience in terms of the
9 locations that service them.

10 What we need is an honest evaluation of
11 environmental compliance costs. Typically what
12 happens right now is agencies take the sum total
13 of the cost and the sum total of the service
14 stations and develop a unit cost. Well, that unit
15 cost is not accurate, because the margins or the
16 cost, the break-even point for service stations is
17 drastically different.

18 And we need to have an economic metric
19 that looks at the various types of service
20 stations or the conditions that service stations
21 operate in, and develop whether those prices are,
22 in fact, feasible for that type of service
23 station, and balance our environmental
24 requirements based upon the ability for our
25 participants to pay or, in fact, if they're going

1 to shut down, what impact that has on fuel supply
2 in California.

3 PRESIDING COMMISSIONER BOYD: Jay, could
4 I ask you a question on that?

5 MR. McKEEMAN: Certainly.

6 PRESIDING COMMISSIONER BOYD: Are these
7 rules regarding equipment requirements federal,
8 state, local agency rules or a combination of all
9 of them?

10 MR. McKEEMAN: The most recent ones are
11 state, state agency requirements. The Air
12 Resources Board for enhance --

13 PRESIDING COMMISSIONER BOYD: Those
14 guys.

15 MR. McKEEMAN: Yeah, those guys -- for
16 enhanced vapor recovery and State Water Board for
17 underground storage tank.

18 PRESIDING COMMISSIONER BOYD: Okay,
19 thank you.

20 MR. McKEEMAN: Another issue in terms of
21 equipment is technology being touted for diesel
22 trucks. That's particle traps. Once again, we're
23 fully engaged with CARB on this issue, but the
24 issue is how good are the economics when the rule
25 comes out.

1 And a particularly important issue on
2 this technology is right now we see a
3 substantially increased need for transportation
4 trucks, especially with ethanol. If regulatory
5 agencies are developing regulations that would
6 decrease the amount of equipment that would be
7 available when actually there is an increase in
8 the equipment needed, that's a counterproductive
9 kind of a regulatory process, and I think it's
10 important for the Energy Commission to take a look
11 at other regulatory agencies' proposals or
12 investigations and weigh in quickly when
13 counterproductiveness to the capable fuel supply
14 to the state is being proposed.

15 On alternative fuels, a couple of points
16 there. We just think that good science and
17 accurate analysis is needed on alternative fuels.
18 Let's not move from one fuel that may have some
19 toxic emissions to another fuel that may have
20 greater toxic emissions. Secondly, we need to
21 look very carefully at the energy efficiency of
22 the alternative fuels; do they provide, in fact,
23 higher greenhouse gas emissions because they're
24 not as energy-dense as petroleum fuels?

25 Mergers and consolidations: This is an

1 issue that's, I know, difficult to deal with
2 because it's certainly issues that have much
3 greater scope than just the state; however, they
4 do affect the market in the state.

5 Not too long there were at least six
6 independent, well, not independent, there were six
7 suppliers of unbranded fuels in the state. Today
8 there are two. We're getting to a highly
9 concentrated market in terms of fuel supply, and
10 we need to look creatively at how we can expand
11 this market.

12 I think the Energy Commission needs to
13 look very, or become much more of a serious
14 player, and when FTC starts looking at future
15 mergers and acquisitions, a key question that Phil
16 Verliger has posed is maybe the FTC should be
17 looking at improvements of refineries, not just,
18 okay, these two refineries can coexist in the
19 market and sell some service stations and stuff
20 like that.

21 But there is leverage that can be
22 parlayed in a merger to actually increase, require
23 increasing production from a company as part of
24 their merger agreement. Just an interesting
25 possibility for the Energy Commission to become

1 involved in the FTC process.

2 And finally, there is a class of
3 customers out there, small bulk fuels customers,
4 and that's agriculture, local agencies, emergency
5 services, school districts, construction, small
6 fleets. And these businesses buy in bulk from our
7 members, but they are an especially economically
8 vulnerable class of customers. They don't have
9 the opportunity to shop Arco one day and 76 the
10 next day, they're pretty much locked into our
11 members for supply.

12 And they can't shop on a street price,
13 so to speak, because typically these supplies are
14 sold on a rack-plus basis. So wherever that rack
15 goes, their fuel prices go. This becomes
16 particularly important for local governments and
17 school districts, because they have fixed fuel
18 budgets. And when we have price volatility and
19 price spikes like we have in California, they have
20 to make decisions about what they're going to do
21 with their fuels budget.

22 For a school district, do they stop
23 servicing the service area, do they limit the
24 service area that they're servicing? Do they
25 eliminate school lunches? You know, these are

1 hard choices for these agencies to make. And
2 they're in a vulnerable position.

3 So we just, we think that typically, in
4 fuel studies, the street prices are the primary
5 focus of the analysis, but I think there is
6 another class of customers in there that may be
7 more sensitive to the variates of the fuel
8 condition in California that might be worth
9 looking at. And certainly, our customers ask us
10 to look after them and we're asking you to look
11 after us and then look after them.

12 So thank you very much for the
13 opportunity to participate and I'm sure we'll be
14 in contact in the future.

15 PRESIDING COMMISSIONER BOYD: Thank you,
16 Jay, and, as you said in your opening remarks, I
17 would also hope and trust that some of the
18 ethanol/MTBE questions are resolved long before
19 this report has to be produced. But you've got
20 the right audience in terms of an agency also
21 involved in it. We've been reading about that in
22 the newspaper today, I noticed.

23 Next I'd like to call on Irene
24 Stillings, executive director of the San Diego
25 Regional Energy Office.

1 MS. STILLINGS: Good afternoon,
2 Commissioner Boyd, I appreciate being here. My
3 name is Irene M. Stillings. I am the newly
4 appointed executive director of the Regional
5 Energy Office. And though I have 28 years of
6 experience working in the energy industry, I am a
7 brand-new player in the California energy market.

8 In fact, I looked around the room and
9 there isn't a face that I see that I know. I hope
10 that will change as time goes by. I expect it
11 will.

12 I'm here this afternoon to put into
13 record our recently released regional energy
14 infrastructure study for the San Diego region.
15 I'm here representing the San Diego Regional
16 Energy Office, but I'm also speaking for the needs
17 of the San Diego region.

18 We had put together, in partnership with
19 the City of San Diego, the County of San Diego,
20 the San Diego County Water Authority, the San
21 Diego Association of Governments, the Utility
22 Consumers Action Networks, and the Port of San
23 Diego, along with SDREO, completed this energy
24 infrastructure just this month.

25 It is intended to be a resource to the

1 region as we go ahead and develop a regional
2 energy strategy, which my agency is responsible
3 for, should be delivered in the first quarter of
4 2003, and at that time we will certainly share it
5 with you. But for the record, I have left copies
6 of our regional energy infrastructure study.

7 And also, of our recently completed
8 study on the energy issues in the California, Baja
9 California binational region. San Diego, the area
10 is a little bit unique in that we're really
11 bordered on the north by Camp Pendleton, we're
12 bordered on the east by mountains, we're bordered
13 on the west by ocean, and on the south by a
14 rapidly growing Baja California-Mexico region.

15 Because of this, we feel that our needs
16 are a little bit different and a little bit more
17 intense, perhaps, than other areas. Our study has
18 indicated that energy demand will almost double by
19 the year 2030, and that we feel and the study
20 indicates that the traditional base load
21 generation plant and transmission grid is just
22 not, that system is just not going to meet our
23 needs.

24 The study calls for a very balanced
25 portfolio of energy resources and to bring into

1 the supply picture as supply resources
2 conservation, energy efficiency, distributed
3 generation, and renewable sources of energy. We
4 feel very strongly that this plan that is being
5 developed leads to address those resources in more
6 than just a side issue, but more as integration
7 into the total energy plan. We don't believe that
8 the San Diego region will be able to meet our
9 future energy needs without that.

10 We are also concerned about the
11 binational nature of our area. And, in fact, that
12 the line that separates San Diego from Mexico is a
13 line that's written on a map but doesn't actually
14 represent the true nature of the region. And
15 that, in fact, our air quality problems and issues
16 cannot be solved without dealing also with those
17 issues in Northern Baja California.

18 And it is our hope that we will be able
19 to develop some binational strategies, and we
20 have, in fact, had representatives of Mexican
21 agencies sitting around the table with us. And we
22 are going to be working on that.

23 We are very concerned with what we see
24 as our overreliance on the importation of natural
25 gas into our region, and concerned very much with

1 future security risks with that dependence on
2 imported gas, natural gas, along -- not only
3 security risk but also the issues of market power.

4 And so we had hoped to address that,
5 and, in the long run, we expect and will be
6 working towards bringing some greater range of
7 energy self-sufficiency to the region as well as a
8 more balanced portfolio of resources.

9 We are very excited about the fact that
10 California's Energy Commission is working on this
11 project. We are dedicated to helping you in any
12 way we can, and want very much to be an active
13 participant in the study as it moves forward.

14 On a side note, I'd like to thank the
15 Commission very much for the support that you have
16 given to the San Diego Regional Energy Office. We
17 look forward to that continued support. And one
18 of the things that you recently helped us with is
19 the development of an energy resource center at
20 our office in San Diego. And you will be
21 receiving an invitation to come to the ribbon-
22 cutting for that on November 13th, and I very much
23 hope you'll be able to do that.

24 We look forward to working with you.
25 We're anxious to help you develop an actionable

1 study that really will make a difference to the
2 energy future of California. Thank you for your
3 time.

4 PRESIDING COMMISSIONER BOYD: Thank you
5 very much, Ms. Stillings. I am, of course, quite
6 familiar with your organization. I very much
7 appreciate that you've probably done some work
8 that is going to be of much help to us.

9 I am quite familiar with the border
10 energy situation, as I think this agency is. A
11 few weeks ago I was at a Border Trade Alliance
12 meeting and appeared on a panel on the energy
13 subject, and that's where I learned about your
14 recent work on the subject of the border energy
15 issue. And I'm quite aware that the border
16 governors have decided to take energy as a
17 separate issue and create, as they would call it,
18 an energy table at all future discussions of
19 border issues.

20 So you're right, it's a burgeoning issue
21 and we look forward to your input, and I do look
22 forward to working with you in the future. Thank
23 you very much.

24 MS. STILLINGS: Thank you.

25 PRESIDING COMMISSIONER BOYD: Okay. I'm

1 going to next call on Paul Wuebben of the South
2 Coast Air Quality Management District.

3 MR. WUEBBEN: Yes.

4 PRESIDING COMMISSIONER BOYD: Paul, we
5 have your written testimony, so thank you for
6 that.

7 MR. WUEBBEN: Good, thank you.

8 Good afternoon, Mr. Chairman,
9 Commissioner and people here. I am Paul Wuebben
10 with the South Coast Air Quality Management
11 District, and we really appreciate the effort that
12 the Energy Commission is planning to undertake
13 with respect to this critical issue.

14 As you noted, we do have comments that
15 we supplied on the docket. I decided it might be
16 useful to summarize a few of the key points. As
17 you know, our agency had to grapple with some of
18 the unintended consequences of the electricity
19 market dysfunctions, if you will, by having to
20 force an effect to curtail for some period our
21 reclaim program as it related to generation
22 sources in the South Coast Air Basin.

23 We also now are facing an increase in
24 the number of ozone violation days relative to
25 last year, and so those trends present even some

1 greater difficulties, which I think should focus
2 us very keenly on the chairman's admonition that
3 energy and the environment must be looked at as a
4 synergy.

5 There are some comments I would like to
6 make, we'd like to make relative to the
7 transportation segment which we think are germane.
8 We, as you know, have adopted alternative fuel
9 fleet rules which we think have some direct
10 relevance for the rest of the state. We find that
11 they work and that they certainly could go a long
12 way in enhancing the diversity of fuels and
13 addressing air quality issues.

14 A second area involved the alternative
15 fuel infrastructure, which we all realize is a
16 significant barrier for any expansion or
17 commercialization of alternative fuels, so we
18 would encourage the Commission to place a keen
19 emphasis on infrastructure as it relates to CNG,
20 LNG, fuel cells and the longer term, et cetera.

21 A third area, in terms of the
22 transportation segment, is our concern about
23 limitations of the ethanol infrastructure, and
24 that we want to make sure that those constraints
25 are not relieved by relaxation of air quality

1 rules. We've heard some reference to that in
2 earlier testimony.

3 A fourth area for transportation we
4 think would have to do with maximizing the market
5 potential for hybrids in the short term and fuel
6 cells in the long term. In the stationary arena,
7 as you know, we do have incentives in Southern
8 California for distributed generation and believe
9 that that is appropriate on a statewide basis. So
10 we would urge you to focus, as others have
11 suggested, on distributed generation, both in
12 terms of policies, incentives, the role of net
13 metering, and also the importance of
14 interconnection standards.

15 A second area in the stationary area is
16 we would suggest a very aggressive initiative
17 related to renewable energy. We've suggested a
18 1000-megawatt solar and renewable initiative that
19 would start to move the state even further than
20 what has been envisioned previously. As a point
21 of reference, the Bonneville Power Authority, as
22 you know, last year issued a solicitation for 1000
23 megawatts of windpower, and they have received
24 2600 megawatts in response. So the opportunities
25 are vast.

1 A third area in the stationary arena has
2 to do with this important and difficult question
3 of enforcement of current regulations. We think
4 that there has been some potential failures, both
5 in terms of the private sector and perhaps in the
6 regulatory agencies themselves, in having a
7 comprehensive and working viable enforcement
8 program that would ensure that rules are being met
9 with as much diligence as possible.

10 So we think that a joint workshop as
11 similarly suggested by the League of Women Voters
12 would be important. I laid this out in our
13 testimony, but essentially it would be suggestions
14 to pull together FERC, the PUC, your agency, the
15 Air Resources Board, and all the other regulatory
16 agencies that have had some bearing on trying to
17 enforce air quality rules or some regulations that
18 impact the utility segment, and what can we learn
19 from, perhaps, some of the problems in enforcement
20 of existing rules.

21 So, with that, we commend the agency and
22 your staff for the excellent beginning that you've
23 set out here, and we look forward to working as
24 cooperatively as we can with you in the future.
25 Thanks.

1 PRESIDING COMMISSIONER BOYD: Thank you,
2 Mr. Wuebben. We too look forward to working with
3 your agency as we've done extensively in the past.

4 Next I'd like to call on Mr. Joseph
5 Camera, Johnson Controls. I saw somebody get up.

6 (Laughter.)

7 PRESIDING COMMISSIONER BOYD: I guess
8 they just left. Well, then I'd like to call on
9 Rachel McMahon with the Center for Energy
10 Efficiency and Renewable Technologies.

11 MS. McMAHON: Hello. Thank you for the
12 opportunity to speak before you today. My name is
13 Rachel McMahon and I'm from the Center for Energy
14 Efficiency --

15 PRESIDING COMMISSIONER BOYD: Get close
16 to that microphone. It's not very --

17 MS. McMAHON: Oh, is that better?

18 PRESIDING COMMISSIONER BOYD: That's a
19 lot better.

20 MS. McMAHON: Okay. I'm from the Center
21 for Energy Efficiency and Renewable Technologies
22 or CERT, and I'm actually speaking today on behalf
23 of comments submitted today from my organization,
24 CERT, the Sierra Club, Cal PERC and Environmental
25 Defense.

1 To open, on the staff proposal in its
2 entirety we would like to underscore the
3 importance of examining all potential public
4 health and environmental impacts. Of all
5 electricity and transportation energy issues
6 consistent with the legislative direction provided
7 by us -- We have 1389 -- the staff proposal
8 appears to do that. And our comments just outline
9 some very specific suggestions for how to achieve
10 that.

11 Some of our suggestions include, for
12 example, examining the potential of policies to
13 increase renewable power to offset and potentially
14 shut down dirtier plants. And restructuring the
15 emission credit trading system to yield the
16 greatest air quality benefit.

17 I would like to draw out a few specific
18 points. First, in its proposed outline, CEC staff
19 suggest that two scenarios be examined to
20 determine whether the demand for natural gas is
21 impacted by energy prices and the economy. These
22 two chosen scenarios appear to be based on the
23 assumption that the state of the economy is the
24 primary factor in determining gas prices now and
25 also going into the future.

1 We would suggest a more holistic
2 approach. CERT released a report earlier this
3 year using energy resource data and industry
4 insider assessments that shows that conventional
5 supplies and natural gas are growing scarce and
6 that gas resources that will have to be exploited
7 in the future will be -- to meet gas demand will
8 be more difficult and expensive, thus driving up
9 gas prices quite apart from the state of the
10 economy in addition to increased imports as well.
11 And we suggest that CEC staff look into this and
12 other scenarios in its analysis.

13 Second, regarding staff's proposed
14 structure for its 20-year forecast for
15 transportation energy supply and demand, we know
16 that there are many experts in the energy field
17 who project the global oil projection will peak in
18 the next one to two decades within this time
19 frame. And this could have a catastrophic impact
20 on California, particularly if this likelihood
21 goes unexamined and is not prepared for. We
22 suggest that staff look into such projections.

23 Third, in examining the role and
24 constraints to clean vehicles in California, we
25 recommend that staff look at what operational and

1 infrastructure improvements are needed to make
2 clean alternative vehicles more viable and
3 accessible to the public.

4 Our written comments outline these and
5 other specific recommendations, and a hard copy of
6 these comments was submitted to the docket office
7 today. Thank you.

8 PRESIDING COMMISSIONER BOYD: Thank you
9 very much for your comments and your input.

10 I have a late entry here, Tim Mason of
11 Pacific Gas and Electric. I shouldn't have said
12 late entry. All entries are welcome.

13 (Laughter.)

14 MR. MASON: Thank you, Mr. Chairman. I
15 meant to get that card to you before.

16 PRESIDING COMMISSIONER BOYD: No
17 problem.

18 MR. MASON: But I saw that the stack was
19 getting thin up there.

20 This afternoon I'd just primarily like
21 to thank you for hosting this in a public forum
22 and PG&E appreciates the opportunity to
23 participate in the report development.

24 We submitted written comments last week,
25 and most of our comments have been addressed by

1 other commenters today and the staff
2 participation, so I'm going to limit my comments
3 to the process issues that we're interested in.

4 Several of the agencies that are
5 involved in this are currently and very actively
6 developing policies as we speak, including CPAs on
7 resource adequacy, CAISO market redesign, and CPUC
8 process IRU procurement. While that's fine and we
9 recognize that this will be an integrated policy,
10 taking into account all the different agencies, we
11 just want to recognize that these are going on and
12 that the work that's included in this report is
13 aligned with these policies that are being
14 promulgated by the other agencies.

15 And, in addition to that, to the extent
16 that the analysis is required for this report,
17 that this be aligned, the tools, assumptions, and
18 the input assumptions that are used in this
19 report. IRUs in particular are providing an awful
20 lot of data to the California ISO and to the
21 Public Utilities Commission, and to the extent
22 that we're trying to get all of this done in a
23 very short period of time, we would emphasize that
24 it would be important that we align all of the
25 assumptions between the different efforts that

1 everybody is embarking on at this point in time.

2 It's just kind of a process issue, but I
3 think one that will make the process far more
4 efficient and hopefully the results of the report
5 far more effective. And I appreciate your time.

6 PRESIDING COMMISSIONER BOYD: Okay.

7 Well, thank you for those comments. I think we're
8 quite cognizant of the fact that there are many
9 agencies involved in many activities, and the
10 legislation does direct us all to work closely
11 together and one can infer that we do need to do a
12 lot of what you just said, in terms of taking into
13 account and integrating. It's a big task in a
14 short period of time.

15 I have no other cards for members of the
16 audience, but if there is anyone who would like to
17 come to the microphone, please take this
18 opportunity. I welcome any input you might have.

19 Okay. Let me first say in some closing
20 remarks that we invite additional written comments
21 from you through the 5th of November. That will
22 be our deadline for written comments, so please
23 feel free to give us additional information, or
24 for those of you who haven't as of yet and were
25 waiting to listen to this hearing, why, we welcome

1 your input. And I'll just remind you again that
2 we would like to receive those comments by
3 November 5th.

4 We have no other prepared testimony or
5 presentations and no other folks from the audience
6 indicating a desire to talk today, so let me make
7 some closing comments. Let me just remind you of
8 what our objective was today, it was to get your
9 input and to supplement what the staff has
10 proposed to date as what might constitute or
11 should constitute the scope of the study.

12 We will take into account all that we've
13 heard today, both orally and the written comments
14 we've received to date and those I've just
15 indicated we will welcome up to and including the
16 5th. We'll take all that into account in framing
17 the final scope of the study and report that we're
18 going to put together in, admittedly, what some
19 have observed is a very short period of time,
20 particularly when you take into account what we've
21 gone through, what we're still going through, and
22 what some forecasts are for the immediate future.

23 So this is a report that's called for to
24 be submitted, the first one in November of next
25 year and then every two years thereafter, and

1 hopefully that, taken in concert over a period of
2 years, will constitute a fairly rigorous energy
3 plan for the future. But I know it's going to be
4 very difficult to give you the be-all, end-all
5 energy report by this coming November, but we
6 will, working in concert with all the other
7 agencies, do our absolute best and maybe the best
8 ever, I hope.

9 As indicated, this is an extremely
10 comprehensive issue we're undertaking in times
11 that have shown the ever-accelerating pace of
12 change to be the rule, not the exception. And so
13 we will all have to work diligently and closely to
14 capture the moment.

15 I would say, in response to all the
16 urgings, to take into account renewables,
17 distributed generation, and other alternative
18 forms of energy and other types of activities to
19 address both energy security and energy diversity.
20 I think it's pretty evident that this agency is
21 pretty heavily committed and dedicated to those
22 causes, and I know so are many of the other state
23 agencies.

24 I've just seen Kellan in the audience,
25 who made reference to the EPA investment plan.

1 We're all keenly interested in that, and many of
2 you are urging us all to go as far as we can, and
3 certainly we do. The context that we operate in
4 is the context that many of you described. Coming
5 off shortly the heels of a fairly disastrous
6 experience, the state has taken a lot of actions
7 that we think have preserved the integrity of the
8 state and its economy, and we've taken out a
9 fairly hefty mortgage, I might call it, and we
10 have to work in the context of that.

11 It would be really nice to start with a
12 clean sheet of paper and design the future and set
13 all the rest of this aside; unfortunately, that's
14 not the real world, and so we will all work
15 together to do our best to take into account the
16 lessons learned, the legacy that we inherit, and
17 do the best we can to design a near-term and then
18 a long-term future, once we've paid off that
19 mortgage as we call it.

20 So I thank you all for your interest. I
21 want you to continue that interest and I urge you,
22 beseech you to stay involved. And I look forward
23 to having more of these public forums, as well as
24 the staff having lots of interchange with a lot of
25 you as we work together to design our mutual

1 future.

2 With that, I thank you very much and
3 wish you all a good day.

4 (Thereupon, the hearing was
5 adjourned at 3:07 p.m.)

6 --oOo--

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CERTIFICATE OF REPORTER

I, PETER PETTY, an Electronic Reporter,
do hereby certify that I am a disinterested person
herein; that I recorded the foregoing California
Energy Commission public hearing; that it was
thereafter transcribed into typewriting.

I further certify that I am not of
counsel or attorney for any of the parties to said
hearing, nor in any way interested in outcome of
said hearing.

IN WITNESS WHEREOF, I have hereunto set
my hand this 30th day of October, 2002.

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